Planning by	Reviewed	Performed by	Final review

Client details
Client name: Sakhisizwe Local Municipality
Year end: 30 June 2020

File details
Ver No: 2018.10.05
File name: SAKHISIZWE AFS 30 June 2020
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File path C:\USERS\GREG HORAK\DESKTOP\CASEWARE BACKUP 2020\BACKUP OF SAKHISIZWE AFS 30 JUNE 2020 (2020-07-29 15-06-31)\
Last update: 32
Design mode has been entered
Builder mode has been entered

Balance Check Controlling entity

		2020	2019
Statement of financial position is out of balance	Diff	4	3
Cash flow statement is out of balance	Diff	1	(1)
Net Surplus per the Statement of Financial Performance does not agree with the NETINC account	Diff	-	2
Opening Accumulated Surplus (deficit) does not match the closing balance for the prior year	Diff	2	5

Print details
Printed by
Date printed

Sakhisizwe Local Municipality
Annual Financial Statements
for the year ended 30 June 2020
Auditor General of South Africa

General Information

Legal form of entity	The entity functions as a local municipality, established under paragraph 151 of the Constitution of the Republic of South Africa.
Nature of business and principal activities	Sakhisizwe Local Municipality is a South African Category A Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998). The municipality's operations are governed by: - Municipal Finance Management Act (No 56 of 2003) - Municipal Structures Act (No 117 of 1998) - Municipal Systems Act (No 32 of 2000) and various other acts and regulations
The following is included in the scope of operation	The following principal activities of the municipality are: Provide democratic activities and accountable government Ensure sustainable service delivery to communities Provide social and economic development Provide basic service to the community
Mayoral committee	
Mayor	Clr B. Ntsere
	Clr K. Faku: Speaker
Councillors	Clr N. Radzilane Ponoshe: Exco member
	Clr N. Magandela: Exco member - Infrastructure and IPED (ANC)
	Clr N. Stofile : Exco member (Community Services and Social needs)
	Clr Z. A. Mose: MPAC Chairperson (ANC)
	Clr N.P. Mkati: (ANC) (Women caucus Chairperson)
	Clr T. Doda
	Clr Y. Ndiki (UDM)
	Clr A. Lande: PR (EFF)
	Clr M. J. Malungisa: PR (DA)
	Clr Z. Mbasane: (ANC)
	Clr M. Ngqayimbana: (ANC)
	Clr T. Hoza: (ANC)
	Clr B. E. Ponoshe: (ANC)
	Clr M. Mxhonywa: (ANC)
	Clr A. Sondlo: (ANC)
	Headman Msheqo: Traditional Council
	Headman Kutuka: Traditional Council
	Headman M. W. Ma-awu: E Qolombeni: Traditional Council
Grading of local authority	Grade 1
Chief Finance Officer (CFO)	P Mahlasela
Accounting Officer	Mrs N. Mazwayi
Registered office	Erf 5556 Umthatha Road Cala 5455
Business address	Erf 5556 Umthatha Road Cala 5455

General Information

Bankers	First National Bank Elliot
Auditors	Auditor General of South Africa
Published	31 October 2020
Telephone	047 877 5200

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Department of Local Government and Traditional Affairs for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Sakhisizwe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the Municipality’s financial statements.

The annual financial statements set out on pages 5 to 74, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Accounting Officer
Municipal Manager

East London

Saturday, 31 October 2020

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

Sakhisizwe Municipality is a grade 1 local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

The Sakhisizwe Municipality includes the following areas:

- Elliot

- Cala

The operating results and state of affairs of the municipality are fully set out in the attached unaudited annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 9 683 545 (2019: deficit R 8 326 247).

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 197 947 462 and that the municipality's total assets exceed its liabilities by R 197 947 462.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Bankers

First National Bank, Elliot

5. Auditors

Auditor General Registered Auditors will continue in office for the next financial period.

6. Public Private Partnership

Council has not entered into any private public partnerships during the financial year.

Statement of Financial Position as at 30 June 2020

Figures in Rand		Note(s)	2020	2019 Restated*
Assets				
Current Assets				
Inventories	30.20	6	805 288	579 683
Trade and Other Receivables from exchange transactions	31.20.15	7	6 619 976	3 364 550
Trade and Other Receivables from non-exchange transactions	33.20.15	8	12 905 882	10 186 744
VAT receivable	31.20.15C	9	1 235 657	3 412 026
Cash and cash equivalents	32.20	10	3 626 878	12 994 080
			25 193 681	**30 537 083**
Non-Current Assets				
Investment property	21.20	3	12 277 500	12 282 339
Property, plant and equipment	20.20	4	207 149 630	225 582 852
			219 427 130	**237 865 191**
Total Assets			**244 620 811**	**268 402 274**
Liabilities				
Current Liabilities				
Finance lease obligation	41.50.25	11	260 187	1 116 200
Payables from exchange transactions	51.20.25	15	20 575 136	18 194 026
Consumer deposits	51.10.20	17	646 297	84 663
Employee benefit obligation	43.50.25	5	368 997	284 154
Unspent conditional grants and receipts	43.20.25	12	1 294 019	17 544 564
Provisions	52.20.25	13	150 000	1 360 000
Bank overdraft	32.50	10	-	38
			23 294 636	**38 583 645**
Non-Current Liabilities				
Finance lease obligation	41.50.20	11	288 145	548 333
Employee benefit obligation	43.50.20	5	2 941 003	2 881 667
Provisions	52.20.20	13	20 149 569	18 757 625
			23 378 717	**22 187 625**
Total Liabilities			**46 673 353**	**60 771 270**
Net Assets			**197 947 458**	**207 631 004**
Accumulated surplus	40.10		197 947 462	207 631 007

* See Note

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	13 783 404	9 745 489
Other income	19	4 665 815	2 759 497
Interest received	20	5 301 759	6 240 711
Gain on disposal of assets and liabilities		71 411	-
Actuarial gains		106 448	-
Total revenue from exchange transactions		**23 928 837**	**18 745 697**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	5 922 020	5 388 681
Transfer revenue			
Government grants & subsidies	22	95 851 371	82 550 759
Total revenue from non-exchange transactions		**101 773 391**	**87 939 440**
Total revenue		**125 702 228**	**106 685 137**
Expenditure			
Employee related costs	23	(35 444 815)	(37 922 347)
Remuneration of councillors	24	(5 670 964)	(5 678 381)
Depreciation and amortisation	25	(9 003 003)	(7 998 448)
Impairment of assets	26	(28 302 170)	(10 969 235)
Finance costs	27	(1 085 909)	(504 058)
Debt Impairment	28	(8 032 236)	(2 311 464)
Bulk purchases	29	(14 208 047)	(12 636 667)
Contracted services	30	(14 890 009)	(8 842 571)
Derecognition of assets		-	(11 336 913)
Actuarial losses		-	(402 438)
General Expenses	31	(18 748 620)	(16 408 862)
Total expenditure		**(135 385 773)**	**(115 011 384)**
Deficit for the year		**(9 683 545)**	**(8 326 247)**

* See Note

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**215 957 254**	**215 957 254**
Changes in net assets		
Surplus for the year	(8 326 247)	(8 326 247)
Total changes	(8 326 247)	(8 326 247)
Restated* Balance at 01 July 2019	**207 631 007**	**207 631 007**
Changes in net assets		
Surplus for the year	(9 683 545)	(9 683 545)
Total changes	(9 683 545)	(9 683 545)
Balance at 30 June 2020	**197 947 462**	**197 947 462**

* See Note

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Ratepayers and other		17 626 645	12 691 971
Government grants		79 600 826	100 091 000
Other receipts		7 075 638	2 763 081
		104 303 109	115 546 052
Payments			
Employee costs		(40 971 600)	(43 481 973)
Suppliers		(17 735 139)	(22 621 409)
Other payments		(36 948 348)	(23 543 602)
		(95 655 087)	(89 646 984)
Net cash flows from operating activities	32	**8 648 022**	**25 899 068**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(22 256 858)	(16 643 616)
Cash flows from financing activities			
Finance lease payments		(1 116 201)	(3 278 899)
Finance costs		5 301 759	56 115
Interest income		56 115	6 240 711
Net cash flows from financing activities		**4 241 673**	**3 017 927**
Net increase/(decrease) in cash and cash equivalents		**(9 367 163)**	**12 273 379**
Cash and cash equivalents at the beginning of the year		12 994 042	720 662
Cash and cash equivalents at the end of the year	10	**3 626 879**	**12 994 041**

* See Note

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	16 095 683	-	**16 095 683**	13 783 404	**(2 312 279)**	A1
Other income - (rollup)	5 761 510	-	**5 761 510**	4 665 815	**(1 095 695)**	B1
Interest received - investment	5 480 386	-	**5 480 386**	5 301 759	**(178 627)**	C1
Total revenue from exchange transactions	**27 337 579**	**-**	**27 337 579**	**23 750 978**	**(3 586 601)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	12 000 000	-	**12 000 000**	5 922 020	**(6 077 980)**	D1
Transfer revenue						
Government grants & subsidies	105 423 000	-	**105 423 000**	95 851 371	**(9 571 629)**	E1
Total revenue from non-exchange transactions	**117 423 000**	**-**	**117 423 000**	**101 773 391**	**(15 649 609)**	
Total revenue	**144 760 579**	**-**	**144 760 579**	**125 524 369**	**(19 236 210)**	
Expenditure						
Personnel	(90 210 538)	-	**(90 210 538)**	(35 444 815)	**54 765 723**	F1
Remuneration of councillors	(3 577 814)	-	**(3 577 814)**	(5 670 964)	**(2 093 150)**	G1
Depreciation and amortisation	(2 374 709)	-	**(2 374 709)**	(9 003 003)	**(6 628 294)**	H1
Impairment loss/ Reversal of impairments	-	-	**-**	(28 302 170)	**(28 302 170)**	
Finance costs	(758 537)	-	**(758 537)**	(1 085 909)	**(327 372)**	I1
Debt Impairment	(1 261 433)	-	**(1 261 433)**	(8 032 236)	**(6 770 803)**	J1
Bulk purchases	(16 701 879)	-	**(16 701 879)**	(14 208 047)	**2 493 832**	K1
Contracted Services	(15 033 062)	-	**(15 033 062)**	(14 890 009)	**143 053**	L1
General Expenses	(17 321 680)	-	**(17 321 680)**	(18 748 620)	**(1 426 940)**	M1
Total expenditure	**(147 239 652)**	**-**	**(147 239 652)**	**(135 385 773)**	**11 853 879**	
Operating deficit	**(2 479 073)**	**-**	**(2 479 073)**	**(9 861 404)**	**(7 382 331)**	
Gain on disposal of assets and liabilities	-	-	**-**	71 411	**71 411**	
Actuarial gains/losses	-	-	**-**	106 448	**106 448**	N1
	-	**-**	**-**	**177 859**	**177 859**	
Deficit before taxation	**(2 479 073)**	**-**	**(2 479 073)**	**(9 683 545)**	**(7 204 472)**	
Surplus for the year from continuing operations	**(2 479 073)**	**-**	**(2 479 073)**	**(9 683 545)**	**(7 204 472)**	
Capital expenditure	2 533 034	-	**2 533 034**	10 926 863	**8 393 829**	O1

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**53 961**	**-**	**53 961**	**1 243 318**	**1 189 357**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.3 Transfer of functions between entities not under common control

Definitions

An acquiree is the entity and/or the functions that the acquirer obtains control of in a transfer of functions.

An acquirer is the entity that obtains control of the acquiree or transferor.

Acquisition date is the date on which the acquirer obtains control of the acquiree.

Control is the power to govern the financial and operating policies of another entity so as to obtain benefit from its activities.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

1.3 Transfer of functions between entities not under common control (continued)

- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

The Municipality measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

As of the acquisition date, the Municipality recognises the identifiable assets acquired and the liabilities assumed. The identifiable assets acquired and liabilities assumed meets the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the acquisition date. In addition, the identifiable assets acquired and liabilities assumed are part of what the Municipality and the acquiree (or its former owners) agreed in the binding arrangement.

The acquisition method

The municipality accounts for each transfer of functions between entities not under common control by applying the acquisition method.

Applying the acquisition method requires:
(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
(d) recognising the difference between (c) and the consideration transferred to the seller.

Subsequent measurement and accounting

In general, a municipality as acquirer subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items, depending on their nature.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Other provisions and estimates

Provision for Landfill Sites:

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.

Provision for Staff leave:

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

Provision for Performance bonuses:

The provision for performance bonuses represents the best estimate of the obligation at yearend and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

Pre-paid electricity estimation:

Pre-paid electricity is recognised as income when the electricity is sold.

Componentisation of Infrastructure assets:

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

Contingent liabilities and Contingent assets:

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

Post retirement benefits

The present value of the post retirement obligations and long service awards depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rateexpected rates of return on assets, future salary increases, mortality rates and future pension increases. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Intangible assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

Investment property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuators to support the useful life of buildings.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions, specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Land: Indefinite

Buildings: 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.6 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Items of property, plant and equipment are initially recognised as assets on acquisition date.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent Measurement – Cost Model

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Land is not depreciated as it is deemed to have an indefinite useful life.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	30
Plant and machinery	Straight line	5 - 10
Furniture and fixtures	Straight line	5 - 7
Motor vehicles	Straight line	5
Office equipment	Straight line	5 - 7
IT equipment	Straight line	5 - 7
Roads and paving	Straight line	25 - 50
Community assets - Improvements	Straight line	30
Community assets - Recreational Facilities	Straight line	20 - 30
Community assets - Security	Straight line	5
Pedestrian Malls	Straight line	30
Electricity infrastructure	Straight line	15 - 50

1.6 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date. If the acquired item's fair value is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.7 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

Item	Depreciation method	Average useful life
Computer software	Straight line	5 - 10

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

1.8 Financial instruments (continued)

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other deposits	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Accounting Policies

1.8 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

Statutory receivables can arise from both exchange and non-exchange transactions.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Statutory receivables are recognised when the related revenue is recognised or when the receivable meets the definition of an asset.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

1.9 Statutory receivables (continued)

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

1.10 Leases (continued)

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset’s fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. The interest rate used is the interest rate implicit in the lease or the bank prime interest rate.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee’s benefit from the use of the leased asset.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Accounting Policies

1.11 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Redundant and slow-moving inventories are identified and written down.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Designation

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information
- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information
- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Discount rate

An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss and is recognised in the Statement of Financial Performance.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information
- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information
- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

1.13 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

1.5.1. Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period’s entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee’s employment term.

Accumulated leave is vesting.

1.5.2. Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

1.5.3. Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities’ performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

1.5.4. Post Retirement Defined Benefit Medical Obligations:

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution.

The interest cost of the defined benefit obligation is recognised as finance cost in the Statement of Financial Performance, as it meets the definition of Interest Cost in GRAP 25.

The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements.

Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

1.5.5. Post Retirement Defined Benefit Long Service Awards:

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality’s obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

1.15 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Capital commitments disclosed in the financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

1.17 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Service charges are levied in terms of the approved tariffs. Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.17 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the financial statements are amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2022/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1’000’000.

Explanations for material differences between the final budget amounts and actual amounts are included the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1’000’000.

Accounting Policies

1.23 Budget information (continued)

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm’s length and not on normal commercial terms are disclosed.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Accounting Policies

1.26 Unspent conditional government grants and receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality’s interest, it is recognised as interest earned in the Statement of Financial Performance.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the amendment is for years beginning on or after 01 April, 2019.

The municipality has adopted the amendment for the first time in the 2019/2020 unaudited annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the amendment is for years beginning on or after 01 April, 2019.

The municipality has adopted the amendment for the first time in the 2019/2020 unaudited annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2020 or later periods:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

The impact of the standard is not material.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

3. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	12 325 781	(48 281)	12 277 500	12 325 781	(43 442)	12 282 339

Reconciliation of investment property - 2020

	Opening balance	**Depreciation**	**Total**
Investment property	12 282 339	(4 839)	12 277 500

Reconciliation of investment property - 2019

	Opening balance	**Depreciation**	**Total**
Investment property	12 287 151	(4 812)	12 282 339

Pledged as security

No Investment Properties were pledged as security.

Investment property in the process of being constructed or developed

There is no Investment Property which is in the process of being constructed or developed.

There is no Investment Property that is taking a significantly longer period of time to complete than expected.

There is no Investment Property where construction or development has been halted.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The market value of Investment Properties are significantly different from their cost disclosed. It is the policy of the municipality to disclose Investment Property on the cost basis, therefore these properties were not revalued to their relevant market values.

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	23 466 597	-	23 466 597	23 466 597	-	23 466 597
Buildings	30 612 331	(2 719 050)	27 893 281	8 334 776	(2 136 266)	6 198 510
Plant and machinery	22 171 843	(18 417 390)	3 754 453	22 171 843	(17 298 679)	4 873 164
Furniture and fixtures	1 758 999	(1 359 528)	399 471	1 697 543	(1 258 681)	438 862
Motor vehicles	5 138 799	(3 858 985)	1 279 814	5 138 799	(3 730 081)	1 408 718
Office equipment	247 493	(214 539)	32 954	250 571	(206 467)	44 104
IT equipment	2 070 482	(1 374 914)	695 568	2 030 734	(1 195 575)	835 159
Roads & stormwater Infrastructure	205 719 066	(98 443 831)	107 275 235	200 201 252	(89 188 517)	111 012 735
Community	12 499 212	(2 655 022)	9 844 190	12 499 212	(2 237 240)	10 261 972
Electricity Infrastructure	20 393 074	(14 898 953)	5 494 121	20 393 074	(14 587 712)	5 805 362
Landfill sites	2 055 175	(1 456 106)	599 069	2 055 175	(1 389 278)	665 897
Emergency equipment	2 026	(1 867)	159	2 026	(1 822)	204
Hawkers stalls	3 820 892	(269 257)	3 551 635	3 820 892	(130 441)	3 690 451
Cemeteries	830 693	(196 480)	634 213	830 693	(168 712)	661 981
Work in Progress	22 228 870	-	22 228 870	56 219 136	-	56 219 136
Total	**353 015 552**	**(145 865 922)**	**207 149 630**	**359 112 323**	**(133 529 471)**	**225 582 852**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Depreciation	Impairment loss	Total
Land	23 466 597	-	-	-	-	-	23 466 597
Buildings	6 198 510	6 038 931	16 238 624	-	(582 784)	-	27 893 281
Plant and machinery	4 873 164	-	-	-	(1 118 711)	-	3 754 453
Furniture and fixtures	438 862	140 309	-	(43 866)	(135 834)	-	399 471
Motor vehicles	1 408 718	-	-	-	(128 904)	-	1 279 814
Office equipment	44 104	-	-	(358)	(10 792)	-	32 954
IT equipment	835 159	59 448	-	(8 678)	(190 361)	-	695 568
Roads and Stormwater: Infrastructure	111 012 735	1 754 466	3 763 348	-	(5 868 301)	(3 387 013)	107 275 235
Community Infrastructure	10 261 972	-	-	-	(417 782)	-	9 844 190
Electricity Infrastructure	5 805 362	-	-	-	(311 241)	-	5 494 121
Landfill Sites Infrastructure	665 897	-	-	-	(66 828)	-	599 069
Emergency Equipment	204	-	-	-	(45)	-	159
Taxi Ranks & Hawker Stalls	3 690 451	-	-	-	(138 816)	-	3 551 635
Cemetery	661 981	-	-	-	(27 768)	-	634 213
Work in Progress	56 219 136	10 926 863	(20 001 972)	-	-	(24 915 157)	22 228 870
	225 582 852	**18 920 017**	**-**	**(52 902)**	**(8 998 167)**	**(28 302 170)**	**207 149 630**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Additions through transfer of functions / mergers	Depreciation	Total
Land	23 466 597	-	-	-	23 466 597
Buildings	6 176 976	-	288 944	(267 410)	6 198 510
Plant and machinery	5 398 183	-	(70 870)	(454 149)	4 873 164
Furniture and fixtures	909 397	-	(261 802)	(208 733)	438 862
Motor vehicles	1 877 109	-	-	(468 391)	1 408 718
Office equipment	77 655	4 667	(16 089)	(22 129)	44 104
IT equipment	1 033 617	45 550	(66 694)	(177 314)	835 159
Roads and Stormwater: Infrastructure	94 549 119	-	21 948 233	(5 484 617)	111 012 735
Community Infrastructure	8 095 899	-	2 581 572	(415 499)	10 261 972
Electricity Infrastructure	6 115 947	-	-	(310 585)	5 805 362
Landfill Sites Infrastructure	732 396	-	-	(66 499)	665 897
Emergency Equipment	675	-	(150)	(321)	204
Taxi Ranks & Hawker Stalls	126 029	61 784	3 593 011	(90 373)	3 690 451
Cemetery	689 598	-	-	(27 617)	661 981
Work in Progress	89 989 823	16 895 139	(50 665 826)	-	56 219 136
	239 239 020	**17 007 140**	**(22 669 671)**	**(7 993 637)**	**225 582 852**

Pledged as security

There are no assets pledged as security.

Other information

Property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of the entity (Carrying amount)		
Paving Machine	-	-

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Property, plant and equipment (continued)

Details of properties

Asset disposals:

In the current 2019 financial year there was Electricity Infrastructure to the value of R11'297'368 trasnferred to Eskom for no consideration.

As at 30 June 2019 there was an unreconciled difference of R3'668 between the Asset Register and the Trial Balance, where the asset register exceeded the the trial balance by R3'668.

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Buildings and Other structures	195 927	200 864
Roads and Stormwater	-	126 530
Sports Fields	-	4 103
Vehicles and Implements	-	249 648
Tools and Equipment	781 122	10 067
	977 049	**591 212**

Due to budget constraints there was a reduction in the amount spent on repairs and maintenance for the 2019 year.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Employee benefit obligations

Defined benefit plan

Post retirement defined benefit medical aid plan

Defined benefit medical aid plan	2020	2019
Opening balance: 1 July	1 151 326	1 399 198
Interest cost for the year	97 098	118 720
(Income) / Expenditure for the year	(87 637)	(133 383)
Actuarial loss / (gain)	(66 787)	(233 209)
Total post retirement benefits: 30 June	1 094 000	1 151 326
Less: transfer to current portion	(95 000)	(87 637)
	999 000	**1 063 689**

Post retirement defined benefit long service award

Defined benefit long service awards	2020	2019
Opening balance: 1 July	2 014 495	1 647 868
Contribution for the year	282 697	211 156
Interest cost for the year	154 986	121 895
(Income) / Expenditure for the year	(196 517)	(390 915)
Actuarial loss / (gain)	(39 661)	424 491
Total long service awards: 30 June	2 216 000	2 014 495
Less: transfer to current portion	(274 000)	(196 517)
	1 942 000	**1 817 978**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

5. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(1 094 000)	(1 151 326)
Present value of the defined benefit obligation-partly or wholly funded	(2 216 000)	(2 014 495)
	(3 310 000)	**(3 165 821)**

Non-current liabilities	(2 941 003)	(2 881 667)
Current liabilities	(368 997)	(284 154)
	(3 310 000)	**(3 165 821)**

Changes in the present value of the non-current employee benefits defined benefit obligation are as follows:

	2020	2019
Opening balance: 1 July	3 165 821	3 047 066
Contribution for the year	282 697	211 156
Interest cost for the year	252 084	240 615
(Income) / Expenditure for the year	(284 154)	(524 298)
Actuarial loss / (gain)	(106 448)	191 282
Subtotal	3 310 000	3 165 821
Less: transfer to current portion	(369 000)	(284 154)
	2 941 000	**2 881 667**

Long Service Award Liability:

Number of eligible employees 2020: 137 (F 67, M 70) 2019: 142 (F 67, M 75)

Average annual earnings R205,788 (2019: R175,559)

Earnings-weighted average age 2020: 46.1 (2019: 45.4)

Calculation of actuarial gains and losses

Figures in Rand	2020	2019

5. Employee benefit obligations (continued)

Key assumptions used: Post-retirement health care benefits

Assumptions used at the reporting date:

Discount rates used	9,03 %	8,76 %
Expected increase in salaries	4,79 %	6,36 %
Expected pension increases	3,59 %	2,26 %

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 2020: 9.03% (2019: 8.76%) per annum has been used. The corresponding index-linked yield at this term is 2020: 4.57% (2019: 3.24%) These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June.

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Expected rate of salary increases:

Average CPI + 1.5% (2018/2019: Feb 2017 - Jan 2018) + 1 per cent)

Impact of COVID - 19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. Medical scheme contributions are also likely to increase by more than expected.

30 June 2020 long-term government bond yields (which drive the main figures in this report) increased dramatically since the early stages of the pandemic. This pushes up the net discount rate which in turn reduces the liability. It is impossible to say how long-lasting this volatility in the prescribed discount rate and its consequent impact on the liability is likely to be.

Key assumptions used: Long service bonuses:

Discount rate used	7,03 %	8,08 %
General Salary Inflation (long-term)	3,80 %	5,51 %
Net Effective Discount Rate applied to salary-related Long Service Bonuses	3,11 %	2,44 %

Number of eligible employees 2020: 137 (2019: 146)

Average annual earnings 2020: R 205,788 (2019: R 152,819)

Earnings-weighted average age 2020: 46.1 (2019: 45.1)

Earnings-weighted average past service 2020: 10.4 (2019: 10.6)

Figures in Rand	2020	2019

5. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	282 697	303 000
Effect on the aggregate of the interest cost	154 986	164 800

Amounts for the current and previous four years are as follows:

	2020 R	2019 R	2018 R	2017 R	2016 R
Defined benefit obligation	2 216 000	2 014 495	1 647 868	1 415 049	1 406 392
Surplus (deficit)	2 216 000	2 014 495	1 647 868	1 415 049	1 406 392
Experience adjustments on plan liabilities	274 000	161 761	212 957	26 289	(155 587)

Mortality rates:

The post-retirement mortality used in the valuation is PA(90) M for males, and PA(90) F for Females.

Normal retirement age:

It has been assumed that the normal retirement age of the Sakhisizwe Municipality employees is 60 years for males and 60 years for females.

6. Inventories

	2020	2019
Crushed stone - at net realisable value	376 888	579 683
Paving Bricks - at net realisable value	428 400	-
	805 288	**579 683**

Crushed stone recognised as an expense during the year	202 795	(9 743)

The inventory of crushed stone in the current 2020 financial year had a net decrease in net realiseable value of R 202 795 (the net increase in 2019: R9'742.93 was due to an increase in the unit selling price per the municipal tariffs from R210 in 2018 to R235.96 in 2019.)

The inventory of paving bricks in the current 2020 financial year had a net realiseable value of R 428 400 (2019: R nil). It was the first year that excess paving bricks were held as inventory, purchased in excess of what was purchased for roads projects.

Inventory pledged as security

There was no inventory pledged as security.

7. Trade and Other Receivables from exchange transactions

	2020	2019
Consumer debtors - Electricity	3 364 437	2 591 371
Consumer debtors - Refuse	2 946 569	486 739
Other trade debtors	11 332	37 861
Other receivables	297 638	248 579
Receivables from exchange transactions (net of impairment)	**6 619 976**	**3 364 550**

Notes to the Annual Financial Statements

7. Trade and Other Receivables from exchange transactions (continued)

Trade and other receivables pledged as security

There were no Trade and other receivables pledged as security.

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary

Ageing of Receivables from Exchange Transactions:

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

7. Trade and Other Receivables from exchange transactions (continued)

Electricity		
Gross balance	6 954 866	5 704 511
Less: Provision for bad debts	(3 774 075)	(3 113 139)
Total (net of impairment)	**3 180 791**	**2 591 372**
Electricity: Ageing		
Current (0 - 30 days)	400 501	510 989
30 - 60 days	474 768	213 251
60 - 90 days	144 505	138 535
+ 90 days	2 161 017	1 728 597
Ageing (net of impairment)	**3 180 791**	**2 591 372**
Refuse		
Gross balance	48 537 727	41 935 011
Less: Provision for bad debts	(45 825 405)	(41 448 978)
Total (net of impairment)	**2 712 322**	**486 033**
Refuse: Ageing		
Current (0 - 30 days)	510 857	486 033
30 - 60 days	420 511	-
60 - 90 days	419 385	-
+ 90 days	1 361 569	-
Ageing (net of impairment)	**2 712 322**	**486 033**
Other trade debtors		
Gross balance	5 858	37 861
Less: Provision for bad debts	-	-
Total (net of impairment)	**5 858**	**37 861**
Other trade debtors: Ageing		
Current (0 - 30 days)	5 858	37 861
Other receivables		
Gross balance	589 656	248 579
Less: Provision for bad debts	-	-
Total (net of impairment)	**589 656**	**248 579**
Other receivables: Ageing		
Current (0 - 30 days)	589 656	248 579
Total: Ageing		
Current (0 - 30 days)	1 506 872	2 762 977
30 - 60 days	895 279	213 251
60 - 90 days	563 890	138 535
+ 90 days	3 522 586	1 728 597
Ageing (net of impairment)	**6 488 627**	**4 843 360**

The reconciliation and ageing in 2019 of Other Receivables was previously reflected as R1,728,094, however with the change in mSCOA ledger codes, the 2019 ageing balance was amended to R248,579.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

7. Trade and Other Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade and other receivables past due but not impaired

Accounts receivable were assessed for impairment based on their payment history. Trade receivables past due but not considered for impairment for the curreent year was 2020: R9'025'885 (2019: R12'378'747)

Trade and other receivables impaired

As of 30 June 2020, trade and other receivables of R 53 236 968 (2019: R 47 640 229) were impaired and provided for.

The amount of the provision was R (49 599 481) as of 30 June 2020 (2019: R (44 562 119)).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	44 562 118	39 145 237
Provision for impairment - current year (exchange)	5 037 362	5 416 881
Closing balance	**49 599 480**	**44 562 118**

Concentrations of credit risk with respect to trade receivables are limited due to the municipality’s large number of customers. The municipality’s historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality’s trade receivables.

8. Trade and Other Receivables from non-exchange transactions

Consumer debtors - Rates	12 905 882	10 186 744

Trade and Other Receivables from non-exchange transactions pledged as security

There were no receivables from non-exchange transactions pledged as security.

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

8. Trade and Other Receivables from non-exchange transactions (continued)

Rates		
Gross balance	49 170 100	43 654 206
Less: Provision for bad debts	(36 462 336)	(33 467 462)
Total (net of impairment)	**12 707 764**	**10 186 744**

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

Ageing of Receivables from Non-Exchange Transactions:

Rates: Ageing		
Current (0 - 30 days)	192 182	252 177
30 - 60 days	379 628	257 050
60 - 90 days	376 183	263 750
+ 90 days	11 759 771	9 413 767
Ageing (net of impairment)	**12 707 764**	**10 186 744**

The entire provision for bad debts relates to the outstanding rates balance.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

Reconciliation of provision for impairment of trade and other receivables from non-exchange transactions

Opening balance	33 467 462	33 910 102
Contribution to provision for impairment - current year (non-exchange)	2 994 874	(442 640)
Closing balance	**36 462 336**	**33 467 462**

9. VAT receivable

VAT	1 235 657	3 412 026

VAT is receivable/payable on the cash basis.

2020: VAT payable (2019: Vat Receivable)

During the 2020 financial year, the system was converted to mSCOA. The municipality is currently in the process of finalising the VAT reconciliation. The process could not be finalised at the time of the compilation of the AFS due to the complexities of the change in systems and vote structure. A balance of R1,719,416 was re-allocated to the VAT control account for further investigation as part of the VAT reconciliation process.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	557 214	259 595
Short-term deposits	3 069 664	12 734 447
Total cash and cash equivalents	**3 626 878**	**12 994 042**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

10. Cash and cash equivalents (continued)

	2020	2019
Current assets	3 626 878	12 994 080
Current liabilities	-	(38)
	3 626 878	**12 994 042**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Cash and cash equivalents pledged as collateral

There were no cash and cash equivalents pledged as collateral.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	**30 June 2019**	**30 June 2018**	**30 June 2020**	**30 June 2019**	**30 June 2018**
First National Bank - Current Account - 6207-652-3135 (Primary Bank Account)	572 820	240 577	670 216	259 595	244 508	709 888
MSP - 6207-652-2294 (FNB Investment Account)	-	-	-	(38)	(38)	(38)
MIG - 6207-657-7091 (FNB Investment Account)	728 783	11 175 217	820	728 783	11 175 217	820
Elliot Housing - 6207-745-0056 (FNB Investment Account)	1 126	1 125	1 118	1 126	1 125	1 118
Survey Account - 6207-659-621 (FNB Investment Account)	-	-	-	-	-	-
Extension 15 - 6207-740-8203 (FNB Investment Account)	2 246	2 244	2 230	2 247	2 244	2 230
Extension 13&14 -6207-745-1278 (FNB Investment Account)	1 015	1 014	1 007	1 015	1 014	1 007
FMG - 6216 - 538 - 9464 (FNB Investment Account)	24 630	579	2 167	24 630	579	2 071
Invest: Valuation - 6207-745-0832 (FNB Investment Account)	-	-	-	-	-	-
DME - 6220-960-0776 (FNB Investment Account)	653 448	891	891	653 447	891	891
FNB Operating Call Account - 6216-534-1943	417 079	8 640	2 675	417 079	8 640	2 675
FNB Business NSD call acc 6280-822-2822	1 241 376	1 544 775	-	1 241 376	1 544 775	-
Total	**3 642 523**	**12 975 062**	**681 124**	**3 329 260**	**12 978 955**	**720 662**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Finance lease obligation

Minimum lease payments due		
- within one year	304 418	1 223 013
- in second to fifth year inclusive	304 418	608 836
- later than five years	-	-
	608 836	1 831 849
less: future finance charges	(60 504)	(167 316)
Present value of minimum lease payments	**548 332**	**1 664 533**

Total Long-term Liabilities - At amortised cost using the effective interest rate method:

Non-current liabilities	288 145	548 333
Current liabilities	260 187	1 116 200
	548 332	**1 664 533**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

Market risk

Carrying value of assets of the municipality subject to a finance lease:

Description	2020	2019
Motor Vehicles	1 279 814	1 408 718

There are no leases secured by property, plant and equipment.

It is the municipality's policy to lease certain motor vehicles, plant & equipment under finance leases. In terms of GRAP 13, when office equipment is rented over the major part of its useful life, the relevant lease is deemed a finance lease and the related liability raised and the asset capitalised.

The fair value of finance lease liabilities approximates their carrying amounts.

The average lease term was 5 years and the average effective borrowing rate was prime for the Wesbank motor vehicles and prime plus 4% fixed for the plant & machinery. No escalation clause is contained in the lease agreements. Ownership on the vehicles will transfer to the municipality at the end of the lease term. Ownership for the office equipment remains with the lessor. No security has been offered by the municipality for the leased assets. Bell Equipment stand security for the plant & equipment.

Total finance costs paid:

	2020	2019
Finance costs paid	497 244	217 121

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Elliot housing fund	1 110	1 110
Ext 13 & 14 Fund	1 000	1 000
Ext 15 Fund	2 213	2 213
Beautification of town	641 181	-
Municipal Infrastructure Grant (MIG)	-	17 540 241
FMG fund	52 515	-
COVID Grant	596 000	-
	1 294 019	**17 544 564**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	17 544 564	4 323
Additions during the year	78 401 000	100 091 000
Income recognition during the year	(94 651 545)	(82 550 759)
	1 294 019	**17 544 564**

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

The funds will remain a liability as long as the conditions are still to be met. Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

12. Unspent conditional grants and receipts (continued)

National Government Grants	Opening balance: 1 July 2018	Grants Received	Operational expenditure transfered to revenue	Capital expenditure transfered to revenue	Rollover application denied: Transfered to revenue	Unspent Conditional Grants: 30 June 2019
Equitable Share	-	53 287 000	(53 287 000)	-	-	-
Local Government Financial Management Grant (FMG)	-	1 700 000	(1 700 000)	-	-	-
Municipal Infrastructure Grant (MIG)	17 540 241	18 200 000	-	(18 309 601)	(17 540 241)	(109 601)
EPWP Grant	-	1 480 000	(1 427 485)	-	-	52 515
Integrated National Electrification Programme Grant	-	2 234 000	-	(1 592 819)	-	641 181
Subtotal	17 540 241	76 901 000	(56 414 485)	(19 902 420)	(17 540 241)	584 095
	17 540 241	**76 901 000**	**(56 414 485)**	**(19 902 420)**	**(17 540 241)**	**584 095**

Provincial Government Grants	Opening balance: 1 July 2018	Grants Received	Operational expenditure transfered to revenue	Capital expenditure transfered to revenue	Grants received without conditions attached: Transfered to revenue	Unspent Conditional Grants: 30 June 2019
EC Department of Transport	-	1 000 000	-	(1 000 000)	-	-
Dep of Sport Art & Culture (Libraries)	-	500 000	(500 000)	-	-	-
Subtotal	-	1 500 000	(500 000)	(1 000 000)	-	-
	-	**1 500 000**	**(500 000)**	**(1 000 000)**	**-**	**-**

Other Conditional Grants	Opening balance: 1 July 2018	Grants Received	Operational expenditure transfered to revenue	Capital expenditure transfered to revenue	Grants received without conditions attached: Transfered to revenue	Unspent Conditional Grants: 30 June 2019
Elliot Housing	1 110	-	-	-	-	1 110
Extension 13 & 14	1 000	-	-	-	-	1 000
Extension 15	2 213	-	-	-	-	2 213
Subtotal	4 323	-	-	-	-	4 323
	4 323	**-**	**-**	**-**	**-**	**4 323**

Total Conditional Grants	Opening balance: 1 July 2018	Grants Received	Operational expenditure transfered to revenue	Capital expenditure transfered to revenue	Grants received without conditions attached: Transfered to revenue	Unspent Conditional Grants: 30 June 2019
Total	17 544 564	78 401 000	(56 914 485)	(20 902 420)	(17 540 241)	588 418

13. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	18 757 625	-	1 391 944	20 149 569
Legal proceedings / litigation	1 360 000	(1 210 000)	-	150 000
	20 117 625	**(1 210 000)**	**1 391 944**	**20 299 569**

Reconciliation of provisions - 2019

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	16 968 087	-	1 789 538	18 757 625
Legal proceedings / litigation	2 500 000	(1 140 000)	-	1 360 000
	19 468 087	**(1 140 000)**	**1 789 538**	**20 117 625**

	2020	2019
Non-current liabilities	20 149 569	18 757 625
Current liabilities	150 000	1 360 000
	20 299 569	**20 117 625**

Current provision for litigation:

Cases have been confirmed by the legal advisors of the municipality that there are cases which have a high probability of being settled by the municipality, however, the timing of the verdict is unknown

The decrease in the provision for litigation in 2019 and 2020 led from cases that were finalised and no longer considered to havea a high probability of being settled by the municipality.

Provision for rehabilitation of landfill-sites

JPCE (Pty)Ltd estimated the rehabilitation costs based on the following assumptions in 2018:

It is assumed that the footprints that require rehabilitation as described and indicated in Section 2 is correct and will be verified by the relevant local authority.
- It is assumed that sufficient on-site quantities for the 200mm thick confining layer and 100mm topsoil would be available.
- The rate for the levelling is based on importing the quantities from commercial sources to ensure good quality materials.
- Clay replaced by GCL in design estimate, due to unlikelihood of sufficient quality and quantity clay being available on-site or nearby.

Site lifetimes

Cala

The previous assessment indicated that the airspace available in the developed disposal cell was consumed due to the uncontrolled disposal and large volumes of scattered waste that needed to be moved to the disposal cell. The entire site and waste inside the cell has since burned. The volume difference between the 2018 and 2020 topographical surveys could therefore not be used as an indicator of waste volumes disposed. However, the effect of the burning was increased airspace. Note that burning of waste is prohibited and should not be done deliberately.

13. Provisions (continued)

The available airspace in the cell as measured from the June 2020 survey is approximately 6 463m^3, taking into account burnt waste located outside the cell to be moved to inside the cell. This is on the assumption that a depth of 100mm over the burnt area would be sufficent to clear the area of waste, based on visual inspection.

It was previously determined by others that the annual airspace usage from 2015 at the Cala Landfill would be approximately 4764 m^3; this includes waste generated in Elliot that would be disposed of at Cala due to Elliot being licensed for closure. The annual airspace usage is currently assumed to be the same, as the StatsSA population growth rate for the Sakhisizwe Municipality is indicated as -0.44%.

Elliot

From reported information, the Elliot Landfill has been licensed for closure along with the authorisation to establish a recyling facility and transfer station. The required rehabilitation date is unknown and it was assumed that the site has no remaining lifetime.

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

Estimated rehabilitation costs:	**Cala**	**Elliot**
Preliminary and General	469 449	1 413 638
Site Clearance and Preparation	31 143	103 021
Storm Water Control Measures	699 206	1 653 945
Capping	2 382 351	6 595 211
Gas Management	-	-
Leachate Management	229 752	441 023
Fencing	10 756	1 304 214
Other:		
Environmental Authorisation (Closure Licence)	467 232	-
Technical ROD	96 442	96 442
Install Groundwater Monitoring Boreholes with lockable caps (includes drilling contractor site establishment)	224 120	192 334
Landscape Architects	104 056	113 669
Water use licence	20 000	20 000
Topographical Survey	14 205	8 344
Contingencies	382 266	1 151 105
Engineering: Professional Fees	315 369	949 662
Site Supervision (Engineer's Representative)	175 267	345 878
Site Supervision (Environmental Control Officer & OHS Agent)	58 314	81 138
Total (Excl. VAT)	**5 679 928**	**14 469 624**

Rehabilitation Area (m2): Cala: R9'702; Elliot R32'094.

Cost per rehab (m2)	585	450
Estimated construction period (weeks)	10	14

14. Long-term loan

A short term loan was received from Chris Hani Municipality in 2017 for R5'000'000. The loan received was re-payable within 12 months and classified as short-term liabilities, however there is a balance of R2'000'000 that was still outstanding as at 30 June 2020. The loan was re-classified in the prior 2019 financial statements from short-term loans, to long-term loans.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

15. Payables from exchange transactions

Trade payables	10 360 006	9 723 279
Payments received in advance: Debtors in credit balance	865 315	608 286
Long-term loans	2 000 000	2 000 000
Accrued leave pay	3 313 173	3 422 223
Accrued expenses: Provision 13th cheque	921 077	828 770
Accrued expenses: Workmens compensation	390 410	390 410
Accrued expense: Retensions	2 685 783	1 176 378
Sundry Deposits received: Dam & Hall Deposits	39 372	44 680
	20 575 136	**18 194 026**

Payables are being recognised net of any discounts.

Not all payables were paid within 30 days as prescribed by the MFMA. This credit period granted was consistent with the terms used in the public sector, through established practices and legislation, therefore discounting of trade and other payables on initial recognition is not deemed necessary.

The carrying value of trade and other payables approximates its fair value.

All payables are unsecured.

Sundry deposits include dam and hall deposits.

A short term loan was received from Chris Hani Municipality in 2017 for R5'000'000. The loan received was re-payable within 12 months and classified as short-term liabilities, however there is a balance of R2'000'000 that was still outstanding as at 30 June 2020. The loan was re-classified in the 2019 year financial statements from short-term loans, to long-term loans.

16. VAT payable

17. Consumer deposits

Electricity	646 297	84 663

No guarantees are held in lieu of Electricity Deposits

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

18. Service charges

Sale of electricity	10 539 427	8 831 974
Solid waste	4 476 367	4 173 824
Free basic services / rebates	(1 232 390)	(3 260 309)
	13 783 404	**9 745 489**

Rebates comprise the following:

Rebates		
Electricity	(1 232 390)	(1 911 094)
Refuse removal	-	(1 349 215)
	(1 232 390)	**(3 260 309)**

During the 2020 financial year, the system was converted to mSCOA. The above rebates is still in the process of being split between electricity and refuse on the debtors system.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

19. Other income

Building Plan, inspection & registration fees	-	4 407
Traffic department income	958 598	1 662 710
Rates Clearance Certificates	11 487	15 936
Sale of goods and rendering of services	421 535	323 375
Rental income	189 135	390 858
Electricity: Connection & re-connection fees	1 602	260
Commission on collection	3 022 158	71 055
Trading licences	42 661	28 403
SITE Payments	18 639	262 493
	4 665 815	**2 759 497**

20. Interest received

Interest revenue

Bank	462 180	487 168
Interest charged on trade and other receivables	4 839 579	5 753 543
	5 301 759	**6 240 711**

21. Property rates

Rates received

Property rates: Residential, Commercial Property, State	5 922 020	5 388 681

Rates are levied annually and monthly. Monthly rates are payable by the 7th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly rates.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

The rates rebate for the current financial year is included in rates revenue received.

Valuations

Residential	685 064 190	763 839 732
Commercial	205 759 025	198 129 025
Municipal	51 620 862	174 339 859
Small holdings and farms	218 810 715	338 197 016
Churches	15 080 000	24 080 000
Public Service Infrastructure	97 339 200	151 611 224
	1 273 673 992	**1 650 196 856**

The breakdown of the valuation roll for the prior year for state was consolidated into Public Service Infrastructure due to a re-classification of codes on the new syste.votes when setting up the mSCOA votes in the current financial year

Figures in Rand	2020	2019

22. Government grants and subsidies

Operating grants		
Equitable share	53 287 000	61 108 000
Government grants - Operating	3 627 485	4 071 000
Government grants - Capital	38 936 886	17 371 759
	95 851 371	**82 550 759**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Unconditional grants received	53 287 000	63 108 000
Conditional grants received: National	41 064 371	36 563 000
Conditional grants received: Other	1 500 000	420 000
	95 851 371	**100 091 000**

The municipality does not expect any significant changes to the level of grants.

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

Opening balance	-	-
Grants received	53 287 000	61 108 000
Grants transferred	-	-
Conditions met - Operating	(53 287 000)	(61 108 000)
Conditions met - Capital	-	-
Conditions still to be met	**-**	**-**

Elliot housing grant

Balance unspent at beginning of year	1 110	1 110

Extension 13 & 14

Balance unspent at beginning of year	1 000	1 000

Extension 15

Balance unspent at beginning of year	2 213	2 213

Local Government Financial Management Grant (FMG)

Balance unspent at beginning of year	-	-
Current-year receipts	1 700 000	1 700 000
Conditions met - transferred to revenue	(1 700 000)	(1 700 000)
Conditions still to be met	**-**	**-**

Health subsidies was used fund primary health care services in the municipal area.

Integrated National Electrification Programme (Eskom) Grant

Figures in Rand	2020	2019

22. Government grants and subsidies (continued)

Current-year receipts	2 234 000	-
Conditions met - transferred to revenue	(1 592 819)	-
Conditions still to be met	**641 181**	**-**

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	17 540 241	-
Current-year receipts	18 200 000	32 912 000
Conditions met - transferred to revenue	(18 200 000)	(15 371 759)
Other - rollover application denied	(17 540 241)	-
Conditions still to be met	**-**	**17 540 241**

The grant was used to upgrade infrastructure in previously disadvantaged areas.

EPWP

Balance unspent at beginning of year	-	-
Current-year receipts	1 480 000	1 951 000
Conditions met - transferred to revenue	(1 427 485)	(1 951 000)
Conditions still to be met	**52 515**	**-**

The grant was used to upgrade electricity infrastructure.

Department of Transport Grant

Current-year receipts	1 000 000	2 000 000
Conditions met - transferred to revenue	(1 000 000)	(2 000 000)
	-	**-**

Department of Sports, Arts and Culture (Library)

Balance unspent at beginning of year	-	-
Current-year receipts	500 000	420 000
Conditions met - transferred to revenue	(500 000)	(420 000)
	-	**-**

Figures in Rand	2020	2019

23. Employee related costs

Basic	21 328 501	23 480 755
Bonus	1 704 343	1 945 326
Medical aid - company contributions	1 394 722	1 329 063
UIF	201 136	207 910
SDL	198 768	304 625
Leave pay provision charge	90 949	937 760
Pension contributions	4 741 765	4 661 684
Travel, motor car, accommodation, subsistence and other allowances	69 887	278 434
Overtime payments	103 909	16 938
Long-service awards	12 449	-
Telephone allowances	99 100	88 090
Allowance::Rural	391 558	8 109
Contribution Bargaining Council	110 265	18 387
	30 447 352	**33 277 081**

The above employee related costs excludes the key managers remuneration listed below:

Remuneration of the Managers (summary)		
Annual Remuneration	4 088 090	3 849 627
Car Allowance	399 000	348 000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	510 374	447 641
	4 997 464	**4 645 268**

Municipal Manager is appointed on a 5-year and all other Directors on a 5-year fixed contract. There are no post-employment or termination benefits payable to them at the end of the contract period.

No performance assessment was performed for the 2017 and current financial year. A decision was made to not raise a provision for performance bonus for the 2017 and 2018 financial year.

Remuneration of municipal manager

Annual Remuneration	821 590	852 159
Car Allowance	55 000	60 000
Contributions to UIF, Medical and Pension Funds	153 694	159 414
	1 030 284	**1 071 573**

Remuneration of chief finance officer

Annual Remuneration	789 656	553 088
Car Allowance	144 000	108 000
Contributions to UIF, Medical and Pension Funds	110 700	75 997
	1 044 356	**737 085**

Corporate and human resources (corporate services)

Annual Remuneration	637 448	511 273
Car Allowance	60 000	50 000
Other	106 614	89 943
	804 062	**651 216**

Remuneration of the Community Services Manager

Annual Remuneration	508 089	113 273
Car Allowance	40 000	10 000

Figures in Rand	2020	2019

23. Employee related costs (continued)

Contributions to UIF, Medical and Pension Funds	58 208	297
	606 297	**123 570**

There was no Community Services Manager appointed during the 2018 financial year.During the 2019 financial year the Community Services Manager was employed for the months of September and October only.

Technical Services Manager

Annual Remuneration	822 391	1 006 714
Car Allowance	60 000	60 000
Contributions to UIF, Medical and Pension Funds	1 785	1 785
	884 176	**1 068 499**

IPED Manager

Annual Remuneration	508 915	813 119
Car Allowance	40 000	60 000
Contributions to UIF, Medical and Pension Funds	79 373	120 204
	628 288	**993 323**

The IPED Manager was appointed during the 2018 financial year. There was no Management salary for IPED for the 2017 financial year.

24. Remuneration of councillors

Executive Major	563 028	563 772
Councillors	4 260 480	4 269 637
Medical, travel & other allowances	847 456	844 972
	5 670 964	**5 678 381**

In-kind benefits

The Executive Mayor is employed full time and does not receive any in-kind benefits.

25. Depreciation and amortisation

Property, plant and equipment	8 998 164	7 993 636
Investment property	4 839	4 812
	9 003 003	**7 998 448**

26. Impairment of assets

Impairments		
Property, plant and equipment	28 302 170	10 969 235

27. Finance costs

Post Employment Health	97 098	118 720
Trade and other payables - interest on overdue acounts	-	343 052
Finance leases	550 911	217 121
Long-service	437 900	(174 835)
	1 085 909	**504 058**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Debt impairment

Debt impairment	8 032 236	2 311 464

Breakdown of debt inpairment (exchange and non-exchange):

Debt impairment	2020	2019
Trade Receivables from exchange transactions	5 037 362	5 474 705
Trade Receivables from non-exchange transactions	2 994 874	(500 463)
Total Contribution to Debt Impairment recognised in statement of financial performance	8 032 236	4 974 242
Less: Portion Relating to VAT	(410 603)	(2 662 778)
	7 621 633	**2 311 464**

29. Bulk purchases

Electricity - Eskom	14 208 047	12 636 667

30. Contracted services

Presented previously		
Consultants and Professional Services	9 683 808	5 697 324
Contractors	5 206 201	3 145 247

31. General expenses

Advertising	8 373	231 541
Auditors remuneration	6 099 770	3 147 441
Bank charges	89 928	71 904
Consumables	249 155	537 890
Catering & Entertainment	578 748	35 574
Rent - office equipment	120 789	169 079
Insurance	2 951 691	1 003 888
Training	-	89 805
Refuse Bags	-	148 379
IT expenses	344 596	481 621
Promotions and sponsorships	-	28 020
Magazines, books and periodicals	-	48 690
Beautification of towns	3 332 648	481 969
Fuel and oil	539 365	1 018 610
Telephone, postage & fax	1 241 328	1 134 791
Printing and stationery	-	289 697
Royalties and license fees	519 239	962 718
Subscriptions and membership fees	512 880	3 346 881
Electricity Purchases	646 174	576 843
Travel - local	413 936	649 849
Uniforms & Protective Clothing	-	657 952
Crusher expenditure	-	(9 743)
Remuneration Ward Committees	1 100 000	1 086 000
Library week	-	8 834
Public Participation	-	210 629
	18 748 620	**16 408 862**

During the 2020 financial year, the system was converted to mSCOA. This resulted in some of the categories in the above expenditure that no longer were applicable in terms of mSCOA and are therefore reflected as R nil in the current financial year.

Figures in Rand	2020	2019

32. Cash generated from operations

Deficit	(9 683 545)	(8 326 247)
Adjustments for:		
Depreciation and amortisation	37 305 173	18 967 683
(Loss) gain on sale of assets and liabilities	(71 411)	11 336 913
Finance costs (cash)	1 142 024	560 173
Finance costs (non-cash)	(56 115)	(56 115)
Interest income (cash)	(5 301 759)	(6 240 711)
Debt impairment	8 032 236	2 311 464
Movements in retirement benefit assets and liabilities	144 179	118 755
Movements in provisions	181 944	649 538
Unspent conditional grants and receipts	(16 250 545)	17 540 241
Changes in working capital:		
Inventories	(225 605)	(9 743)
Trade and Other Receivables from exchange transactions	(11 287 662)	(3 106 918)
(Increase)/Decrease in Trade and other receivables (non-exchange)	(2 719 138)	(2 655 748)
Payables from exchange transactions	1 239 086	(6 202 804)
VAT	3 895 785	1 009 003
Consumer deposits	2 303 375	3 584
	8 648 022	**25 899 068**

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	40 284 109	14 990 971
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	-
Total capital commitments		
Approved and contracted for	40 284 109	14 990 971

Authorised operational expenditure

Total commitments

Total commitments		
Authorised capital expenditure	40 284 109	14 990 971

This committed expenditure will be financed from:

Source of financing:		
Government Grants	40 284 109	17 544 564

34. Contingencies

Pending litigation exists against the Municipality compromising of the following pending cases:

Estimated cost of contingent liabilities	2020	2019
Xabana Civils CC	200 000	60 000
• Xabana Civils CC has instituted action in the Grahamstown High Court for payment allegedly due to it		
Bay Drive Trading 151 (Pty) Ltd	-	60 000
• Bay Drive Trading 151 (Pty) Ltd has instituted action in the Grahamstown High Court for payment being allegedly due to it relating to a tender for crushed rock. The Municipality has paid the amount of R1 351 512, but there is an amount still in dispute.		
Mr. SM Dalasile	-	20 000
• Mr. SM Dalasile instituted action against the Municipality during 2014 for payment alleged due to him for damages suffered when his bull was impounded.		
CNN Development	-	60 000
• CNN Development instituted action against the Municipality during 2016 for payment allegedly due to it for services rendered.		
Nomasiyephi Gladies Sonamzi	200 000	60 000
• Nomasiyehi Gladies Sonamzi, widow of Mr Jack, former employee alleges that the Municipality is liable to her the amount of R5 000 000 as it failed to comply with the Occupational Health and Safety Act, 85 of 1993.		
Siyabulela Mponzo	80 000	80 000
Siyabulela Mponzo launched an application in the High Court to gain access to his personal information and records relating to his employment with the Municipality. The bills and costs are in the process of being taxed where after they will be presented to the Municipality for payment.		
Nolitha Tshefu – Case No. 1611/2019 Invalidation of employment contract due to illegality.	-	300 000
Luvuyo Fatuse – Case No. 117/2019 Invalidation of employment contract due to illegality.	200 000	300 000
Palesa Nonkxwe – Case No. 20/2019 Interdict for eviction of illegal occupiers and demolition of illegally erected structures.	-	80 000
Fikile Balibese - Case no. 823A/2020	80 000	-
A compelling order to remove encroachment and desist from encroaching onto land belonging to the Municipality		
Mr Dumile Mvulane’s case	200 000	-
Sakhisizwe Municipality vs Mr D.M. Mvulane for misconduct		
	960 000	**1 020 000**

Figures in Rand	2020	2019

35. Related parties

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

Related party transactions

Company name		
Makhesonke M.Trading **Service Capacity:** Phelisa Ngcobondwana Payroll Officer **Relationship:** Wife of Onke Mbulawa. Supply and delivery of alternative energy (paraffin) Cluster 2	340 498	-

Related Party Loans:

Since 1 July 2004 loans to councillors and senior management employees are not permitted. No loans have been granted by the municipality prior or subsequent to this date.

There were no related party transactions for the 2019 financial year.

Remuneration of management

Executive management

For key management and Councillors remuneration refer to notes 23 & 24

36. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Long Term liabilities - Finance Lease Liability	1 223 013	608 836	-	-
Trade and Other Payables	9 429 344	-	-	-

36. Risk management (continued)

Market risk

Foreign exchange risk

The municipality does not hedge foreign exchange fluctuations.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

The municipality is not exposed to price risk.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

37. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 197 947 462 and that the municipality's total assets exceed its liabilities by R 197 947 462.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

38. Events after the reporting date

The Municipal Regulations on Standard Chart of Accounts (mSCOA) came into effect on 1 July 2017.
Traditionally, the municipality used an accounting system in which the municipality transacted and budgeted in 2 segments, namely Item and Municipal Vote. mSCOA was implemented to provide for a national standard in respect of uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities.

In order to shift from item based budgeting to project based budgeting, mSCOA has now added another 5 segments to the reporting/transacting requirement detailed below:

- Project – clarifying the link to the IDP on transaction level
- Funding – defining the funding source that each entry contribute/utilise.
- Region – Identifying the region that derives the benefit associated with the expenditure
- Function – Providing a standard reporting chart throughout the country. Very similar to the former GFS classification.
- Costing – transactional level to improve costing in local government.

There was no material events after the reporting date that had an effect on the current financial year.

39. Unauthorised expenditure

	2020	2019
Opening balance as previously reported	62 384 321	52 133 414
Opening balance as restated	**62 384 321**	**52 133 414**
Current year	7 204 472	10 250 907
Closing balance	**69 588 793**	**62 384 321**

Unauthorised expenditure for the 2020 financial year was R7'204'472 (2019: R10'250'907)

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

40. Fruitless and wasteful expenditure

Opening balance as previously reported	2 499 936	963 980
Opening balance as restated	**2 499 936**	**963 980**
Current year	359 299	1 535 956
	-	-
Closing balance	**2 859 235**	**2 499 936**

Included in the opening balance is an amount identified in 2012 for a contract entered into between MTN Cellular Service Provider and Sakhisizwe Municipality, whereby the municipality stands as surity for numerous cellphone contracts for unknown users of the cellphones. The original agreement between the service provider and the municipality was not conducted and signed by an authorised municipal official, neither have the costs been recovered from the users of the cellphones. The payment to MTN in the current financial year is regarded as fruitless and wasteful expenditure. An amount of R6 000 was overpaid to a supplier due to a casting error on their invoice submitted. An amount of R56 430 was overpaid to the supplier for car hire.

Included in the opening balance is an amount identified in 2011 for licencing & service fees totalling R23,138 were incurred in 2010 by the Traffic department on licencing & service fees paid to TCS (Pty)Ltd for the use of a system which is no longer in use by the Traffic department, but for which no notice has been given to the relevant company to cancel the contract. No attempt has been made to recover the fruitless expenditure. No criminal or disciplinary steps were considered necessary in relation to the expenditure. The expense had not been condoned as at 30 June 2017.

Included in the opening balance, is fruitless expenditure of R25 234 which was incurred in 2014 due to interest incurred on outstanding Eskom and Telkom accounts.

2015: VAT penalties of R20 306 were incurred with SARS.

Fruitless and wasteful expenditure resulting from interest charged on overdue accounts of R149'148 was identified for the 2018 financial year.

Fruitless and wasteful expenditure resulting from interest charged on overdue accounts of R1'535'955 was identified for the 2019 financial year

Fruitless and wasteful expenditure resulting from interest charged on overdue accounts of R359'299 was identified for the current 2020 financial year

The closing balance has not been condoned as at 30 June 2020.

41. Irregular expenditure

Opening balance as previously reported	79 871 582	77 601 905
Opening balance as restated	**79 871 582**	**77 601 905**
Irregular Expenditure - current year	4 586 460	2 269 677
Closing balance	**84 458 042**	**79 871 582**

Expenditure to the value of 2020: R4'586'460 (2019: R2'269'677) was incurred during the current financial year due to non-compliance with the SCM regulations resulting in the irregular expenditure.

The balance of Irregular Expenditure totalling 2020: R84'458'042 (2019: R79'871'582) will be referred to internal audit and MPAC for further investigation.

No recovery, disciplinary steps or criminal proceedings were instituted as a result of irregular expenditure incurred which will be subject the outcome of the investigations.

Figures in Rand	2020	2019

42. Additional disclosure in terms of Municipal Finance Management Act

Material losses

Electricity distribution losses:

Electricity distribution losses	2020	2019
Units purchased (Kwh)	8 569 059	9 091 796
Units lost during distribution (Kwh)	1 917 117	2 586 503
Electricity lost during distribution (R)	2 770 147	3 469 931
Percentage lost during distribution (%)	22	28

Audit fees

Opening balance	-	-
External Audit Fees	5 913 434	3 001 688
Remuneration of Audit Committee	88 199	145 753
Amount paid - current year	(6 001 633)	(1 065 975)
Balance unpaid (included in creditors)	**-**	**2 081 466**

Balance unpaid as at 30 June 2020 to the Auditor General was R nil (2019: R2'081'466)

PAYE and UIF

Opening balance	-	-
Current year subscription / fee	5 000 417	4 698 829
Amount paid - current year	(5 000 417)	(4 698 829)
	-	-

VAT

VAT receivable	1 235 657	3 412 026

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

There were no Councillors with arrear accounts for more than 90 days as at 30 June 2020 and 30 June 2019.

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have not been condoned as at 30 June 2019.

Deviations	Single Supplier 2020	Total 2020	Single Supplier 2019	Total 2019
July	3 026	3 026	-	-
August	504 880	504 880	471 732	471 732
September	56 217	56 217	37 815	37 815
October	63 518	63 518	18 741	18 741
November	68 370	68 370	32 296	32 296
December	257 439	257 439	816 351	816 351
January	13 000	13 000	13 000	13 000
February	1 158 039	1 158 039	1 158 039	1 158 039
March	540 774	540 774	540 774	540 774
April	124 108	124 108	449 020	449 020
May	347 950	347 950	15 680	15 680
June	5 841	5 841	162 756	162 756
	3 143 162	**3 143 162**	**3 716 204**	**3 716 204**

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the unaudited annual financial statements.

Deviations from the supply chain management policy creditors for the 2020 financial year was R387,550

Other non-compliance (MFMA 125(2)(a))

Section 9(a) of the MFMA requires the accounting officer of a municipality to submit to the relevant provincial treasury and the Auditor General, in writing within 90 days after the municipality has opened a new bank account , the name of the bank where the account has been opened, and the type and number of the account. There were no new accounts opened during the current financial year.

Section 32 (4) (a) of the MFMA states that the accounting officer must promptly inform the mayor, the MEC of local government in the province and the Auditor General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality. The municipality did not inform the relevant parties as required by the section.